



Audit & Risk Advisory Services

10 Shelley Street
Sydney NSW 2000

PO Box H67
Australia Square 1213
Australia

Telephone: +61 2 9335 7000
Facsimile: +61 2 9299 7077
DX: 1056 Sydney
www.kpmg.com.au

Mr Dick Warburton
Chairman of Directors
Caltex Australia Limited
Level 12
MLC Centre
Sydney NSW 2000

Our ref CAL04A-ShareholderResponse-W2104-
DJC (3)

26 April 2005

Dear Sir

Auditors' response to shareholders' questions

The purpose of this letter is to respond to questions put to KPMG as the auditor of Caltex Australia Limited ("Caltex") from a shareholder of Caltex.

In anticipation of changes to the Corporations Act, introduced by the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (CLERP 9), Caltex offered its shareholders an opportunity to submit questions in writing to its auditor, KPMG, on:

- (a) the preparation and content of KPMG's audit report on Caltex; and
- (b) the conduct of the audit of Caltex's annual financial report.

These amendments introduced in CLERP 9 will not apply to Caltex until 31 December 2005 but, as a matter of policy, Caltex have voluntarily complied with these pending requirements. KPMG is not legally, therefore, required to respond to such questions, however in the interests of transparency we offer the following comments.

Firstly we set out some background on the audit process used to form our audit opinion on the financial report.

Management prepares the financial report in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, the Stock Exchange rules and other regulatory requirements. The approval of the financial report is the responsibility of the Board of Directors. The role of the auditor is to conduct an independent audit and to issue an independent audit report in accordance with the Corporations Act 2001.

In forming our opinion on the financial report, we comply with the Corporations Act and Australian Auditing Standards. In developing our approach we identify the business risks, internal controls and critical audit objectives expected to have a material impact on the financial report.

Our audit procedures are designed to test management's assertions regarding the financial report, including the operation of key internal control processes and procedures and other supporting evidence. Based on all audit work performed, we assess whether the financial report taken as a whole presents a true and fair view and is in compliance with the Corporations Act 2001 and applicable accounting standards.

Our audit procedures are designed to provide reasonable assurance whether the financial report is free of material misstatement. Our work is not carried out for the purpose of giving a separate opinion on the adequacy of internal controls or on each caption of the financial report in isolation. Based on the results of our work we were able to issue an unqualified audit report on the financial report, as set out on page 56 of the Company's report to shareholders.

With that background, following are additional comments in relation to the specific questions asked:

- 1 How many audit personnel are involved at any one time? AND*
- 2 How many man hours per year are spent on the audit?*

In determining the composition of the audit team assigned to an engagement, we consider the level and complexity of the work necessary to enable us to express an opinion on whether the financial report is prepared in all material respects, in accordance with the requirements of the Corporations Act 2001.

Our audit teams comprise an appropriate number of people, of varying levels and relevant experience, in order to complete the necessary audit procedures and obtain sufficient appropriate audit evidence to enable us to form our independent opinion in accordance with Australian Auditing Standards. The team involves a number of specialists, including individuals qualified to provide assurance on taxation, information systems and superannuation.

An annual audit plan is prepared, discussed and agreed with the Audit Committee of Caltex. This plan details key personnel, hours and fees in respect of the audit. We are unable to disclose the actual hours spent on the audit engagement as this would likely result in undue prejudice to KPMG.

3 Are the auditors based at Caltex or at their audit office?

Audit procedures are conducted at both KPMG offices and various Caltex locations, including the Sydney Head office of Caltex and the Kurnell refinery. This is supplemented by site visits as required.

A full time presence is not maintained at Caltex rather the audit is conducted around the year end and half year financial reporting periods, together with addressing specific issues as they arise. The company maintains a full time internal audit function.

4 How do the auditors obtain access to the information they need to conduct the audit?

Audit evidence is obtained in a variety of ways and from various sources. In conducting our audit sufficient appropriate audit evidence has been obtained through either inspection of documents or tangible assets, observation, inquiry, confirmation, recalculation, reperformance or analytical procedures. The information required to complete these procedures may be provided by management's internal sources or may be obtained from external sources.

Access to internal sources of audit evidence is governed by section 310 of the Corporations Act 2001. Under this section of the legislation the auditor:

- (a) has a right of access at all reasonable times to the books of the company; and
- (b) may require any officer to give the auditor information, explanations or other assistance for the purposes of the audit or review.

Our audit opinion states whether in our opinion the financial report is in accordance with the Corporations Act 2001. If we had not been able to provide an opinion on the financial statements because we had not been given all information, explanations and assistance necessary for the conduct of the audit we would be required to state this fact.

5 Is the audit done continuously through the year or at specific times e.g. quarterly?

As statutory auditors we are required to prepare a review report on the half year financial report and an audit opinion on the year end financial report of Caltex. An audit is a continuous process and comprises various phases; planning, risk identification, documentation and testing of key financial processes, detailed testing and substantive procedures, review of financial statement disclosures and reporting. Audit procedures are carried out at various times throughout the financial year and subsequent to year end up to the date of signing our audit opinion.

6. *How comprehensive and thorough is the audit compared to an audit for a fraud enquiry or during a merger or takeover? And*
7. *What proportion of the total information is checked and verified during the audit*

Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement rather than for a specific purpose such as a fraud enquiry or takeover due diligence. The nature of the audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, use of analytical procedures, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all misstatements have been detected or that all information is checked and verified during the audit. It is not possible to quantify the proportion of information specifically checked during the audit, rather it is possible to say that all information is considered when determining the appropriate audit procedures.

We have performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and applicable accounting standards, a view which is consistent with our understanding of Caltex's financial position and financial performance. These procedures included

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of accounting policies and disclosures used and the reasonableness of accounting estimates made by the directors.

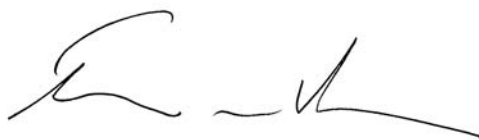
We have not completed an audit for a fraud enquiry or a merger/takeover in relation to Caltex, therefore we are unable to compare the procedures that may be undertaken for these specific engagements with those procedures undertaken for the statutory audit of the financial statements.

We trust that these comments satisfactorily address the questions raised by a shareholder of Caltex.

Yours faithfully



KPMG



Trent van Veen
Partner